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Report On Business®

Economy Expands Again, PMI Inches up to 51.1%

JUNE REPORT

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The manufacturing economy registered a third consecutive monthly increase in June to close out the second quarter on a high note, say the nation's purchasing executives in their latest **Report on Business.**

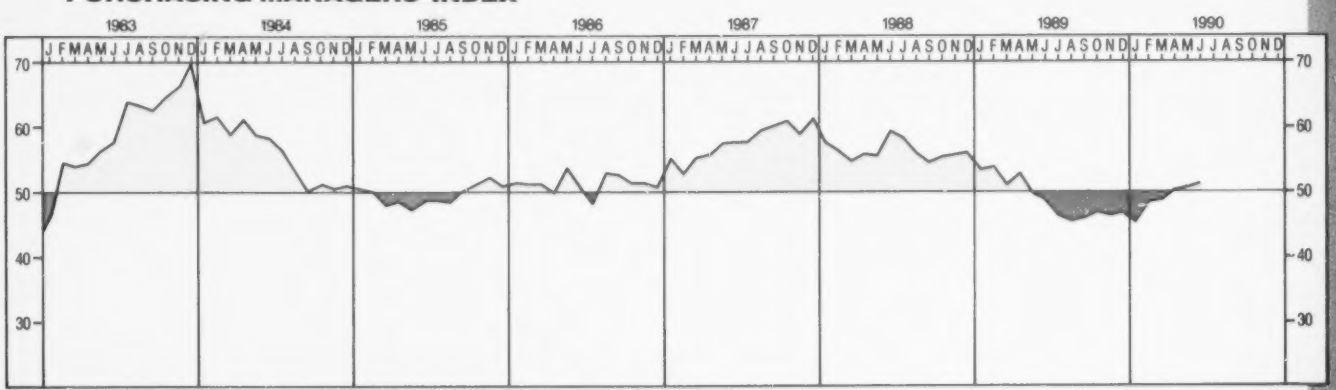
The Production Index rose for the fifth consecutive month, although at a lower rate than in May. New Orders also rose for the fifth consecutive month at virtually the same rate as last month. New Export Orders increased at a more robust rate than in May, while Imports declined for the second consecutive month. Inventories declined for the 19th consecutive month although the rate of decline was the lowest since December 1989.

Supplier Deliveries were slower in June for the first time in 14 months, reflecting the increased demand and lower inventory levels. Prices rose in June for the second time in the last three months, and the Price Index is the highest since May 1989. Employment declined for the 16th consecutive month.

A series of special questions were asked regarding credit conditions. Of the 18% of responding members whose companies initiated requests for new or additional loans or credit from a financial institution since April 1990, only a few experienced any tightened lending restrictions or felt the need to issue commercial credit paper as a substitute. However, a number of members reported that their smaller suppliers or customers were experiencing some difficulties in securing additional credit and that smaller businesses in general were keeping closer control of their receivables.

The **Report** was issued by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The manufacturing economy ended the second quarter with a moderate, but solid, increase in growth. Manufacturers, with relatively low inventories, were somewhat surprised by the growing demand causing Supplier Deliveries to slow for the first time in over a year. This, combined with a growing number of shortages, enabled prices to increase slightly for the second time in three months. Increased strength in New Orders during the second quarter should provide the basis for a continuation of similar growth as we enter the third quarter."

PURCHASING MANAGERS' INDEX



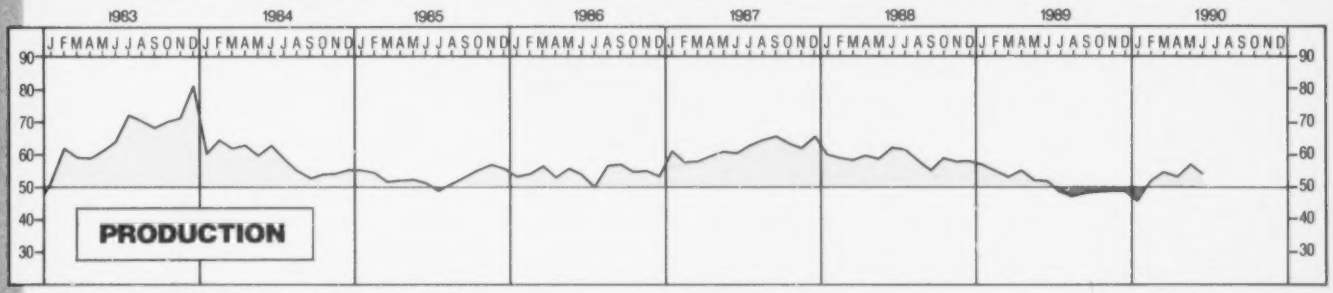
Peak — July 1981; Trough — November 1982.

PURCHASING MANAGERS' INDEX (PMI)

June '89	48.8	January '90	45.2
July '89	46.2	February '90	48.3
August '89	45.5	March '90	48.8
September '89	46.0	April '90	50.2
October '89	46.9	May '90	50.7
November '89	46.4	June '90	51.1
December '89	46.7		

The **Purchasing Managers' Index** (PMI) rose to 51.1%, up slightly from 50.7% in May. This marks the third consecutive month in which this leading economic indicator has registered over 50% after declining for 11 consecutive months. A reading above 50 indicates that the manufacturing economy is generally expanding; below 50, that it is generally declining. Bretz added, "The PMI has averaged 49.1% for the first half of 1990. If the June level of the PMI remains unchanged for the balance of the year, the past experience indicates this would be consistent with real GNP growth of about 1.9% for 1990."

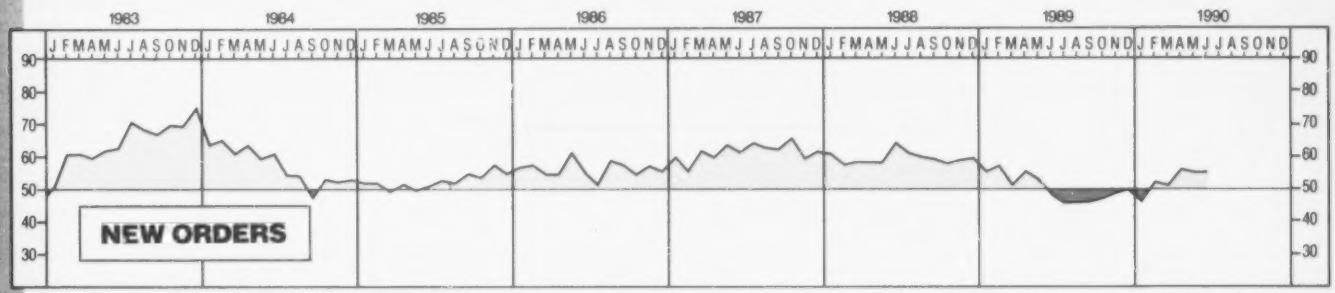
BUSINESS



Peak — July 1981; Trough — November 1982.

Production increased in June for the fifth consecutive month, although at a lower rate of growth than in May. The Production Index dropped to 53.9%, down from 56.3% last month. The consistent growth in New Orders signals continued Production growth as we enter the third quarter.

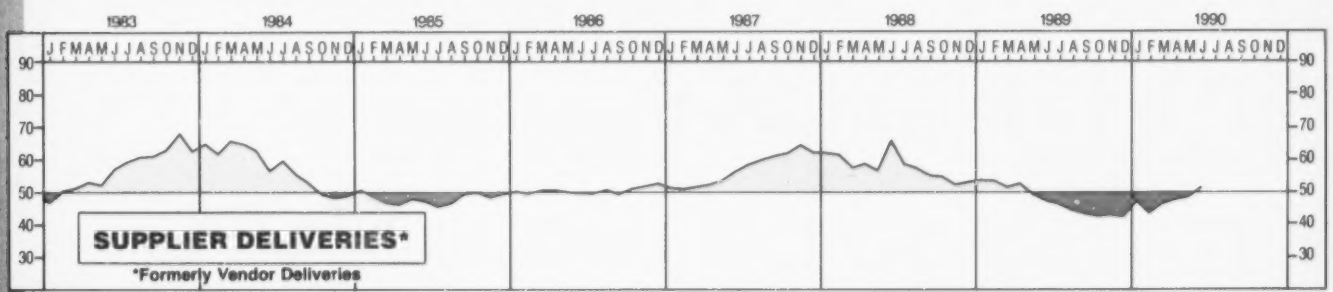
Production	%Better	%Same	%Worse	Net	Index
June 1990	25	58	17	+ 8	53.9
May 1990	25	62	13	+12	56.3
April 1990	30	54	16	+14	53.0
March 1990	28	55	17	+11	54.4



Peak — July 1981; Trough — November 1982.

New Orders increased in June for the fifth consecutive month at virtually the same rate of growth as in May. The New Orders Index inched upward to 54.9% from 54.8% last month. Except for April, the 54.9% is the highest since April 1989 (also 54.9%), and the average of the index in the second quarter is higher than any quarter in 1989. This consistent growth in New Orders over the past three months should be sufficient to sustain moderate production growth over the next few months.

New Orders	%Better	%Same	%Worse	Net	Index
June 1990	28	49	23	+ 5	54.9
May 1990	31	47	22	+ 9	54.8
April 1990	36	46	18	+18	55.5
March 1990	30	48	22	+ 8	50.4



Peak — July 1981; Trough — November 1982.

Supplier Deliveries were slower in June, breaking a string of 13 consecutive months in which Supplier Deliveries were faster. The Supplier Deliveries Index registered 51.2%, the highest since April 1989 (52.6%). This leading indicator confirms the increased demand and growth in the manufacturing economy.

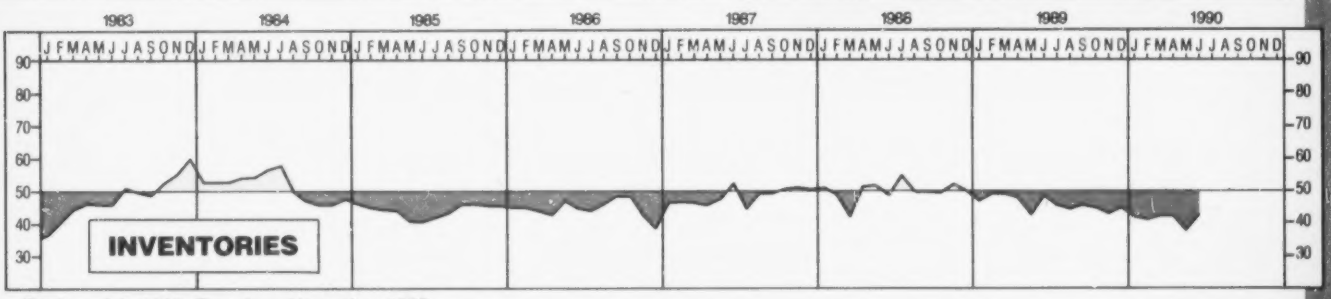
Supplier Deliveries	%Slower	%Same	%Faster	Net	Index
June 1990	9	81	10	– 1	51.2
May 1990	8	81	11	– 3	48.6
April 1990	7	80	13	– 6	47.6
March 1990	5	84	11	– 6	45.8

IN SHORT SUPPLY

Bearings — 23rd consecutive month, a consequence of anti-dumping suits; **Compressors**; **Electric Motors** — 10th time in 15 months; **Acrylic Acid** — 19th time in 24 months (used in manufacturing plastics); **Caustic Soda/Soda Ash** — 37th consecutive month (used heavily in paper-making, petroleum refining, and soap-making); **Silicon Wafers** — 3rd consecutive month (used in making semiconductors and integrated circuits); **Coated Paper**; **Offset Printing Paper**; **Lemon Juice** — 2nd consecutive month (used in food processing and in beverages); **Nonfat Dry Milk** — Used in food processing.

UP IN PRICE

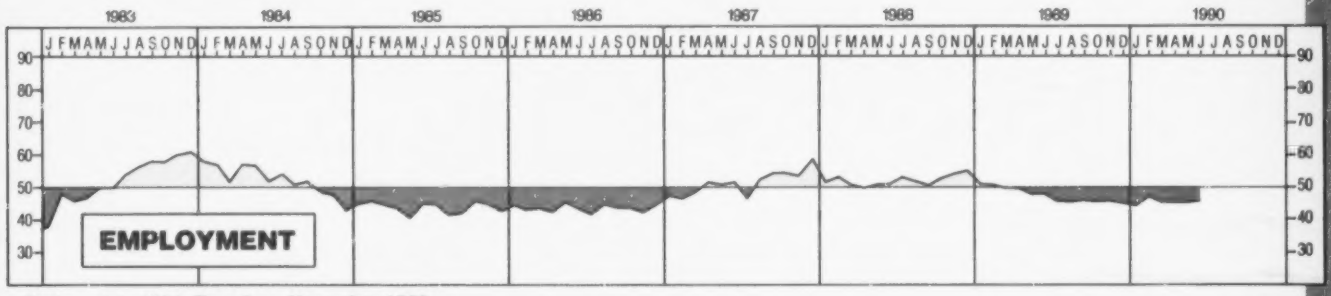
Aluminum — 2nd consecutive month (stiff resistance, equal reports of price decreases); **Copper** — 2nd consecutive month (volatile prices, equal reports of price decreases); **Steel** — Some reports of price decreases; **Steel Scrap** — 2nd consecutive month (after being reported down in price in February 1990 for 4 consecutive months); **Zinc** — 4th consecutive month, fueled by the pressure of labor contract negotiations at mines in Peru and Canada, and a major Canadian smelter (used heavily in metal alloys and as a protective coating for metal); **Offset Printing Paper**; **Newsprint**; **Bearings** — 21st time in 24 months, a consequence of anti-dumping suits; **Acetone** — 2nd time in 3 months (a solvent for fats, oils, waxes, resins, rubber, plastics, lacquers, and varnishes); **Benzene** — Used heavily in making medicinal chemicals, dyes, varnishes, lacquers, and resins; **Caustic Soda/Soda Ash** — 43rd consecutive month, primarily as a consequence of lower demand for co-produced chlorine by paper-makers (used heavily in paper-making, petroleum refining and soap making); **Methyl Ethyl Ketone (MEK)** — 2nd con-



Peak — July 1981; Trough — November 1982.

Purchasers reduced Inventories in June for the 19th consecutive month, although at a significantly lesser rate than in May. The Inventories Index rose to 42.9%, up over five points from 37.8% last month and the highest since December 1989 (44.5%).

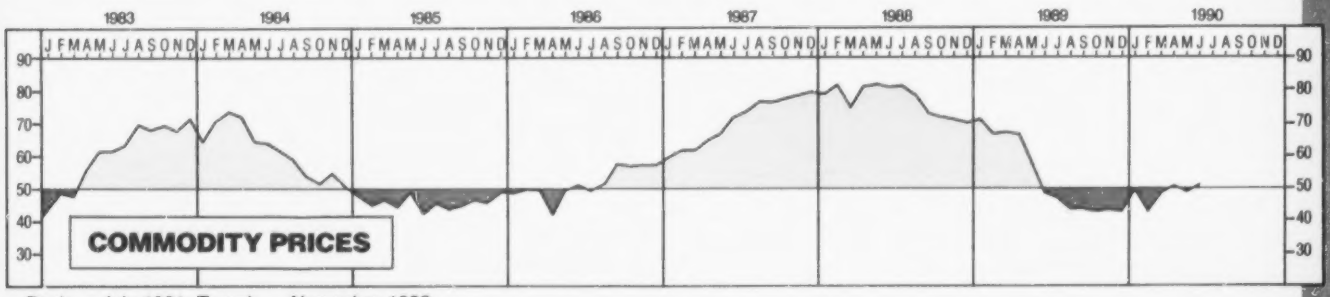
Inventories	%Higher	%Same	%Lower	Net	Index
June 1990	16	54	30	−14	42.9
May 1990	11	58	31	−20	37.8
April 1990	16	53	31	−15	41.6
March 1990	15	56	29	−14	41.6



Peak — July 1981; Trough — November 1982.

Employment declined in June for the 16th consecutive month at a slightly lesser rate than in May. The Employment Index rose to 45.9%, up from 45.5% last month. Employers continue to reduce employment despite the solid five-month increase in production growth. If this dual trend continues, it suggests greater future increases in productivity in the manufacturing economy.

Employment	%Higher	%Same	%Lower	Net	Index
June 1990	13	68	19	− 6	45.9
May 1990	13	67	20	− 7	45.5
April 1990	14	68	18	− 4	45.1
March 1990	12	70	18	− 6	45.2



Peak — July 1981; Trough — November 1982.

Prices rose in June for the second time in the past three months mirroring the improvement in the manufacturing economy. The Price Index rose to 50.9%, up from 48.5% last month, and was the highest since May 1989 (57.5%). The number of commodities reported higher priced rose to 19, up from 12 in May. However, 20 commodities were reported lower priced in June, an increase from 17 in May.

Prices	%Higher	%Same	%Lower	Net	Index
June 1990	17	70	13	+ 4	50.9
May 1990	11	75	14	− 3	48.5
April 1990	19	68	13	+ 6	50.8
March 1990	13	72	15	− 2	48.2

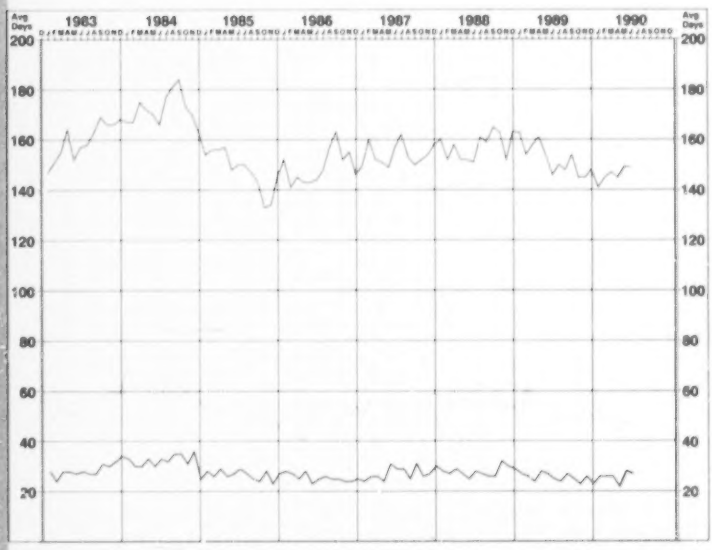
secutive month (used heavily as a chemical solvent in surface coatings and in making resins); **Polypropylene** — 2nd time in 3 months (used heavily in making fabrics, yarns, and carpets); **Styrene (ABS)** — Used chiefly in making synthetic rubber, plastic resins, and plastic; **Sulfuric Acid** — Used heavily in making fertilizers, dyes, adhesives, and other acids; **Zinc Oxide** — Used heavily as a pigmentation in paints and inks, in cosmetics, driers, quick-setting cement, and copier paper; **Printing Ink**; **Rubber**; **Hydraulics**.

DOWN IN PRICE

Aluminum — 15th consecutive month but equal reports of price increases; **Aluminum Die Cast**; **Aluminum Wire**; **Copper** — 2nd consecutive month (volatile prices, equal reports of price increases); **Lead** — After being reported up in price in April 1990 (used heavily in making paints, petroleum, pipe, and batteries); **Steel** — 10th consecutive month; **Lumber**; **Linerboard** — 4th consecutive month, used heavily in making corrugated shipping cartons; **Corrugated Shipping Containers** — 5th consecutive month; **Ethylene** — 2nd consecutive month (used heavily in making ethylene oxide, plastic resins, and glycols); **Methanol** — After being reported up in price in April 1990 for 4th consecutive month (used heavily as a solvent, a motor fuel additive and in synthesizing other chemicals); **Phenol** — 10th time in 13 months (used heavily in making phenolic resins); **Plastic Resins** — 6th consecutive month (used in making plastic products); **Polystyrene** — Used chiefly in making synthetic rubber, plastic resins, and plastic; **DRAMS** — Dynamic electronic memory device used heavily in computers; **Diesel Fuel**; **Fuel Oil** — 5th consecutive month; **Natural Gas** — 5th consecutive month; **Flour.**

BUYING POLICY

Although both Production and New Orders continued to grow in June, lead times either declined or remained unchanged from May. Lead times for Capital Expenditures remained the same as in May, 149 average days. Although unchanged, the 149 average days is the highest since September 1989 (154 average days) and is a reflection of relatively strong demand for Capital Expenditures. Lead times for Production Materials declined slightly to 47 average days, down one day from 48 days in May, but up three days from April (44 days). The average days lead time for Maintenance, Repair and Operating (MRO) Supplies dropped to 27 days, down one day from 28 days in May, but up five days from April (22 days).

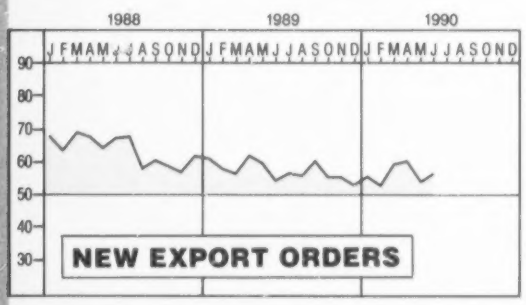


PERCENT REPORTING

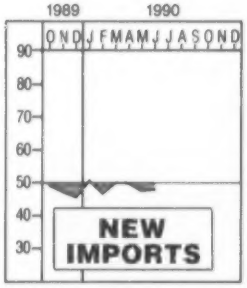
Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer	1 Year + Days	Avg. Days
June	11	5	14	20	33	17	149
May	10	7	10	22	35	16	149
April	12	6	13	18	36	15	145
March	11	5	14	18	37	15	147

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer	1 Year + Days	Avg. Days
June	19	40	28	9	3	1	47
May	17	40	27	13	2	1	48
April	16	43	26	11	2	0	44
March	19	37	29	10	4	1	49

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer	1 Year + Days	Avg. Days
June	38	47	12	2	1	0	27
May	41	45	10	3	0	1	28
April	47	43	8	2	0	0	22
March	39	49	9	2	1	0	26



New Export Orders increased in June for the 30th consecutive month, and at a higher rate than in May. The New Export Orders Index, not yet seasonally adjusted, rose to 56.5%, up from 54.0% last month. The number of members exporting in June increased to 77%. This is the highest percentage since February 1988 (also 77%), and the most since this indicator began in January 1988.



Imports declined in June for the second consecutive month. The Imports Index, not yet seasonally adjusted, rose to 48%, up slightly from 47.5% in May. Although the number of members importing rose to 79%, up from 76% last month, Imports have only increased in one month (50.5% in January 1990) since this indicator began in October 1989.

New Export Orders	%Exporting	%Better	%Same	%Worse	Net	Index
June 1990	77	20	73	7	+13	56.5
May 1990	76	17	74	9	+ 8	54.0
April 1990	74	28	65	7	+21	60.5
March 1990	71	25	69	6	+19	59.5

Imports	%Importing	%Higher	%Same	%Lower	Net	Index
June 1990	79	8	80	12	−4	48.0
May 1990	76	8	79	13	−5	47.5
April 1990	76	10	80	10	0	50.0
March 1990	78	9	82	9	0	50.0

DATA AND METHOD OF PRESENTATION

The **Report on Business** is based on data compiled from monthly replies to questions asked of purchasing executives in over 300 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty industries in 50 states are represented on the committee.

Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured [New Orders, New Export Orders, Imports, Production, Supplier Deliveries (formerly Vendor Deliveries), Inventories, Employment and Prices], this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction (higher, better and slower for Supplier Deliveries), and the negative economic direction (lower, worse and faster for Supplier Deliveries), and the diffusion index.

Responses are raw data and are never changed. The diffusion index includes the percent of positive responses plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to relatively minor changes when conditions warrant them. A sufficient history is not yet available for the New Export Orders and Imports Indexes to determine seasonal adjustment factors. Therefore, these two indexes are not seasonally adjusted. The Purchasing Managers' Index (PMI) is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (New Orders, Production, Supplier Deliveries, Inventories and Employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50%, that the economy is generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

Responses to Buying Policy reflect the percent reporting the current months lead time, the approximate weighted number of days ahead for which commitments are made for Production Materials, Capital Expenditures and Maintenance, Repair and Operating (MRO) Supplies, expressed as hand-to-mouth (5 days), 30 days, 60 days, 90 days, 6 months (180 days), a year or more (360 days) and the weighted average number of days. These responses are raw data, never revised and not seasonally adjusted since there is no significant seasonal pattern.